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# LETTER DATED 27 AUGUST 1998 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith, pursuant to paragraph 14 of Security Council resolution 1153 (1998), a report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait (see annex). The report, covering the Committee's activities in relation to the implementation of the relevant arrangements under Council resolution 986 (1995) during the first 90 days after the date of entry into force of paragraph 1 of resolution 1153 (1998), was adopted by the Committee on 27 August 1998.

(Signed) António MONTEIRO
Chairman
Security Council Committee established
by resolution 661 (1990) concerning the
situation between Iraq and Kuwait

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Annex

Report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995)

## I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraph 14 of resolution 1153 (1998) of 20 February 1998, by which the Committee was requested, in close coordination with the Secretary-General, to report to the Security Council 90 days after the entry into force of paragraph 1 of that resolution on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). By paragraph 1 of resolution 1153 (1998), the Security Council decided that the provisions of resolution 986 (1995), except those contained in paragraphs 4, 11 and 12, would remain in force for a new period of 180 days beginning at 00.01 hours, Eastern Standard Time, on the day after the President of the Security Council had informed the members of the Security Council that he had received a report of the Secretary-General as requested in paragraph 5 of that resolution regarding the approval of an enhanced distribution plan submitted by the Government of Iraq. By resolution 1153 (1998), the Security Council also decided that the authorization given to States by paragraph 1 of resolution 986 (1995) would permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum, in the 180-day period, not exceeding a total of $5.256 billion.

2. The President of the Security Council informed Security Council members on 29 May 1998 that he had received the above-mentioned report of the Secretary-General regarding the approval of an enhanced distribution plan on the same date. Hence, the new 180-day period under resolution 1153 (1998), commonly known as phase IV, commenced at 00.01 hours Eastern Standard Time on 30 May 1998.

3. The Committee has to date submitted eight reports to the Security Council on the oil-for-food programme, the first six reports (S/1997/213, S/1997/417, S/1997/692, S/1997/942, S/1998/187 and S/1998/469) on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995) and two reports (S/1998/92 and S/1998/336) on the refining and clarifying of the Committee's working procedures in order to expedite the approval process for sending humanitarian supplies to Iraq.

## II. SALE OF PETROLEUM AND PETROLEUM PRODUCTS

4. The export of petroleum from Iraq during phase IV has proceeded smoothly, with excellent cooperation among the oil overseers, the independent inspection agents (Saybolt), the Iraqi State Oil Marketing Organization and the national oil purchasers.

5. The overseers continue to advise the Committee on the pricing mechanisms, contract approval and modifications, management of the revenue objective and other pertinent questions related to export and monitoring, under Security Council resolutions 986 (1995), 1153 (1998) and 1175 (1998).

6. As at 20 August 1998, the overseers have reviewed and approved a total of 49 contracts, involving purchasers from 22 countries. One of the 49 approved contracts was subsequently cancelled by the Committee at the request of the Member State concerned. Four contracts were approved directly by the Committee. Another four contracts were still pending, owing to a lack of supporting documentation. The total quantity of oil approved for export under those approved contracts corresponds to approximately 310 million barrels for phase IV. All but one contract submitted employed the pricing mechanisms approved by the Committee on the recommendation of the overseers; one contract, which requires pricing mechanism for a new destination, is pending until the pricing mechanism is submitted by the State Oil Marketing Organization of Iraq to the Committee for approval.

7. As at 20 August 1998, 99 liftings, totalling 126.2 million barrels for a value of $1,184 million, have been completed. Letters of credit opened for each of the liftings were reviewed and confirmed by the overseers upon compliance with the terms and conditions of the contracts approved. About 51 per cent of the liftings were made at Ceyhan in Turkey. The largest share of the volume lifted went to Europe. At current low prices, total revenue projected for all the contracts approved for phase IV is estimated at around $3 billion (including the pipeline fees).

8. The overseers and the independent inspection agents (Saybolt) deployed to monitor oil loadings and transfers have worked closely to ensure the effective monitoring of the relevant oil installations as well as the liftings. They have continued to receive the full cooperation of the Iraqi authorities.

9. Pursuant to paragraph 2 of the procedures of the Committee (S/1996/636), 283 national oil purchasers, nominated by 45 countries, are authorized to communicate directly with the overseers.

10. Pursuant to paragraph 14 of the procedures of the Committee, the overseers have continued to report on a weekly basis on the contracts considered by them regarding the sale of petroleum originating in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. To date, 87 such reports have been submitted to the Committee.

## III. EXPORT OF HUMANITARIAN SUPPLIES TO IRAQ

11. As in the previous three phases, during the first 90-day period of phase IV, the Committee continued to attach high priority to the work of processing contracts for supplying humanitarian goods to Iraq. Since the operation has been enhanced by resolution 1153 (1998) and the Secretariat has been reinforced, the pace at which those contracts are processed by the Secretariat and approved by the Committee has increased.

12. As mentioned above, on 27 May 1998, the Government of Iraq submitted an enhanced distribution plan, pursuant to paragraph 8 (a) (ii) of resolution 986 (1995), for the purchase and distribution of humanitarian supplies in phase IV. The enhanced distribution plan was approved by the Secretary-General on 29 May 1998 (S/1998/446).

13. As of 26 August 1998, the Secretariat received 408 applications under phase IV for exports of humanitarian supplies to Iraq. Of the total, 3 were subsequently cancelled, 351 circulated to Committee members for action and 54 were still being processed. Of those sent to the Committee for consideration, 297 were found eligible for payment from the United Nations Iraq Account, totalling approximately $860,495,993; 24 were placed on hold and 30 were pending under the "no-objection" procedure. In respect of the 297 applications which were found eligible for payment from the Iraq Account, 103 letters of approval were released on the basis of availability of funds and the remaining 194 were still waiting for sufficient funds to become available in the Iraq Account.

14. The confirmation of the arrival of goods by the United Nations independent inspection agents (Lloyd's Register) has been going on smoothly at the four entry points in Iraq at Umm Qasr, Trebil, Zakho and Al-Walid. As in previous phases, the Iraqi authorities have accorded the independent agents full cooperation in their work. By 22 August 1998, 1,423 consignments of humanitarian supplies under phase IV had been confirmed as having arrived in Iraq in total or in partial shipments.

## IV. EFFORTS BY THE COMMITTEE TO EXPEDITE DELIVERIES OF HUMANITARIAN GOODS TO IRAQ

15. As mentioned in the Committee's report of 17 April 1998 (S/1998/336), the Committee adopted guidelines and points of understanding on simplified procedures to approve applications for foodstuffs, in which the Committee decided to confer upon the Secretariat the authority to determine whether applications for foodstuffs were in order under those guidelines and points of understanding and to submit them for approval to the Chairman of the Committee in accordance with the conditions set out in the guidelines and points of understanding (S/1998/336, appendix). The above-mentioned arrangement came into effect on 29 May 1998 when the Secretary-General reported to the Security Council pursuant to paragraph 5 of resolution 1153 (1998) (S/1998/446). However, due to the lack of a pricing mechanism submitted by the Government of Iraq and approved by the Committee, a prerequisite for the delegation of approving authorities, the arrangement has yet to be implemented and applications for foodstuffs have been processed according to the standard procedures.

16. With regard to the issue of reimbursement of the 53 per cent account from the 13 per cent account for joint purchases, the Committee received a non-paper on the matter from the Office of the Iraq Programme at its 172nd meeting, on 18 June 1998, and decided to pursue consideration of the matter on the basis of the non-paper.

## V. MATTERS RELATING TO OIL SPARE PARTS AND EQUIPMENT TO IRAQ

17. Pursuant to paragraphs 12 and 13 of resolution 1153 (1998), the Secretary-General submitted on 15 April 1998 a report of the group of experts established pursuant to paragraph 12 of that resolution to determine, in consultation with the Government of Iraq, whether Iraq was able to export petroleum or petroleum products sufficient to produce the total sum referred to in paragraph 2 of the resolution, not exceeding a total of $5.256 billion (S/1998/330, annex). The Secretary-General recommended that the Security Council authorize the export to Iraq of an estimated $300 million worth of oil spare parts and equipment necessary to enable Iraq to increase most urgently the export of petroleum or petroleum products ($210 million for upstream requirements and $90 million for downstream requirements).

18. On 19 June 1998, the Security Council adopted resolution 1175 (1998), by which the Security Council authorized States to permit, notwithstanding the provisions of paragraph 3 (c) of resolution 661 (1990), the export to Iraq of the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum of $5.256 billion. By paragraph 2 of the same resolution, the Security Council also requested the Committee, or a panel of experts appointed by the Committee, to approve contracts for the parts and equipment according to lists of parts and equipment approved by the Committee for each individual project. By paragraph 3 of resolution 1175 (1998), the Security Council decided that the funds in the escrow account produced pursuant to resolution 1153 (1998) up to a total of $300 million may be used to meet any reasonable expenses, other than expenses payable in Iraq, which followed directly from contracts approved in accordance with paragraph 2 of resolution 1153 (1998).

19. On 28 July 1998, the Committee received a communication from the Office of the Iraq Programme outlining the procedures for the monitoring of the spare parts referred to by resolution 1175 (1998). The monitoring system, which would be kept under constant review in order to ensure its efficiency and effectiveness, would enable the United Nations to keep track of the spare parts from port of entry and customs clearance into Iraq, their storage and utilization for the purpose for which they were authorized.

20. As of 26 August 1998, the Committee received 61 applications to ship oil spare parts and equipment to Iraq under resolutions 1153 (1998) and 1175 (1998). Nine are still being reviewed by customs experts, 42 have been circulated to the members of the Committee for consideration, and 10 were returned to the applicant Missions for clarification or correction. Of those applications circulated, 15 have been approved with a total value of $24,641,790; 16 applications were placed on hold and 11 are still pending under the "no-objection" procedure.

## VI. CONCLUSIONS

21. The Committee will, in close coordination with the Office of the Iraq Programme, make further efforts for the smooth and effective implementation of all relevant arrangements under the oil-for-food programme. It will review as

necessary the implementation of all the measures regarding the refining and clarifying of its working procedures in order to facilitate the timely delivery of humanitarian goods and the necessary oil spare parts and equipment to Iraq. The Committee reiterates its appreciation to all the parties concerned for their cooperation and contribution in this respect.

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